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SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT

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EAGR: Biotechnology corn plantings
ETRD: Spain's new Tobacco control law
FAIR: Germany LTU to buy Air Madrid
ECON: Spain's rural decline
ETRD: Lily to triple pharmaceutical production

The future of biotechnology corn looks bleak

11. (U) Greenpeace Spain recently posted its calendar year (CY) 2006 environmental report card for Spain. In its analysis, posted to their Website (<http://www.greenpeace.org/espana/>), it announced that one of the most important developments in Spain during CY 2006 was a reduction in biotechnology corn plantings vis-a-vis previous year's plantings.

12. (U) However, during marketing year (MY) 2006, Spanish corn producers actually increased biotechnology corn plantings as a percent of total corn hectares planted. While MY 2006 planting statistics are not yet final, we know that Spanish farmers planted at least 53,700 hectares of biotechnology corn, and using that statistic (we expect that final numbers will be even higher), biotechnology corn comprised 14.8 percent of total corn planting's, up from last year's 12.8 percent ratio. Spanish corn farmers did indeed decrease total planted corn hectares (all varieties and types) in both MY 2005 and again in MY 2006, but the reductions were related, in large part, to prevailing drought conditions, and not to non-science based political pressure on them to quit using agricultural biotechnology.

IMPACT OF SPAIN'S NEW TOBACCO CONTROL LAW

13. (U) January 1 marked the first anniversary of Spain's tough anti-tobacco law, which banned smoking in the work place and most other public places and limited smoking in bars and restaurants. The press ran numerous articles assessing the alleged successes and failures of the legislation. On the success front, the law is credited with the first ever decline in tobacco sales in Spain. Sales declined by 3.12 percent in 2006 as compared to 2005, and the head of Spain's National Commission for the Prevention of Tobacco Use told the media that this decline was a direct result of the new law. The Health Ministry also claims that 500,000 Spaniards quit smoking during the course of 2006. Most observers also claim that the ban on smoking in the workplace is being complied with. On the negative side, only 15 percent of Spain's restaurants, bars, and discos have elected to become smoke free or to construct the special isolated smoking sections required under the law. And very

few Spanish regions, which are charged with implementing the law, are actually enforcing the legislation (Catalonia appears to be the exception). Also on the negative side is the release by several Spanish regions, including the opposition-controlled Madrid region, of implementing instructions that are far more lenient than the national legislation and are clearly designed to undermine the new law. The national administration is currently fighting these regions in the courts.

Germany's LTU will buy Air Madrid

14. (U) According to the Spanish Ministry of Public Works, the German airline LTU will acquire bankrupt Air Madrid. The deal was made public on January 8, although rumors had been circulating in the press during the previous week. The announcement comes some three weeks after Air Madrid abruptly ceased operations just before the Ministry of Public Works withdrew its license to operate. The cessation, just as the busy Christmas travel season began, stranded thousands of passengers worldwide. The Ministry of Public Works ended up chartering planes to fly many of these passengers home. Under the terms of the agreement, LTU will operate most of Air Madrid's transatlantic routes (primarily to South America) and will honor previously acquired tickets to fly up until the end of June (with a surcharge of Euros 250 per flight.) It also appears that LTU will retain close to 50 percent of Air Madrid's staff. Other Air Madrid employees continue to fight for the payment of their salaries.

Seeking Ways to Halt Spain's Rural Decline

15. (U) One effect of Spain's long run of strong economic growth has been the loss of inhabitants in many rural villages and towns. According to the Financial Times, Castilla y Leon, Spain's largest region, lost more than one million residents between 1950 and 2001. Some village and regional leaders, however, have come up with creative

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approaches to try to stem the exodus to larger towns and cities, albeit with only limited success. For example, there are currently four "English villages" run by the firm Pueblo Ingles, which offer Spanish executives immersion courses in English, given by native speakers who trade their language skills for vacations in rural Spain. The hosting villages receive steady income from the teachers and students, presumably giving residents a reason to stay. A mayor in the region of Aragon, seeking new blood for his village, traveled to Argentina and Romania to recruit immigrant families with a promise of jobs, free education, and favorable loans. He had some initial success and his approach was copied by some other villages. However, inevitably, a good-sized percentage of the new arrivals found rural life boring and moved on to Spain's larger cities. Other communities have used European Union funds to promote ecotourism and rural tourism projects - again with modest success. Rural exodus is and will remain a concern for regional and especially local governments - with fewer inhabitants and fewer tax payers, services become more expensive to deliver to the mostly older remaining residents in rural areas.

Lily plans to triple its Pharmaceutical production in Spain in 2008

16. (U) Spain Lilly President Javier Ellena announced the planned expansion on December 25. The company intends to hire 100 additional professionals, although Ellena said that it would be difficult to find sufficient numbers of qualified people. Last year, Lily's revenues grew by 15%, considerably higher than the 6.6% industry average. Nevertheless, Ellena posted that the R&D pharmaceutical investment climate in Spain remains problematic because of price, tax and patent issues. Lilly is particularly interested in maintaining its patent on Zyprexa until 2011 because this drug represents 40% of its revenues in Spain. (Note: We believe this in one of

the drugs scheduled for patent expiry prior to 2011 because this drug represents 40% of its revenues in Spain. (Note: We believe this is one of the drugs scheduled for patent expiry prior to 2011 because it only benefited from process, not product, protection when the international commitments to provide product patent protection. Product patent protection became available in Spain in patent protection for a number of successful drugs that only benefit from process patent protection. In return, the companies are willing to co-finance an R&D "consortium". The companies are also pursuing court cases in Spain, several of which they say they have won, although the companies say the Spanish legal route is expensive and probably will not provide most of the patent changes they seek. USG and Swill government lawyers do not concur with the firms' assertion that TRIPS obliges the Spanish government to extend retroactive product patent protection to drugs that have process patent protection. Embassy Madrid continues at various levels to encourage the Spanish government to continue its dialogue with the industry to improve the investment climate for the R&D-based pharmaceutical industry.

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